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221

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To : The Secretary
Through: S/S
From : INR - Ray S. Cline (RSC)

April 3, 1970

Subject: Libya: Oil Companies Under Intense Pressure on Posted Prices

Has a Deadline Been Set? The important negotiations over the "posted" or tax-reference prices of crude oil--in progress since January between the oil producing companies, largely American-owned, and the Libyan Arab Republic Government (LARG)--appear to have entered a critical stage. The Libyan Petroleum Undersecretary told Embassy Tripoli on March 30 that, unless the oil companies submitted a counter-proposal by April 4, the LARG would take unspecified unilateral action against the companies "within a week." It is not clear whether the LARG has given a formal deadline to the companies or whether the LARG was attempting to pressure the companies through the Embassy. In any event, the companies are clearly convinced that the situation is critical, and senior executives from Libya have been meeting jointly in New York this week to arrive at a common position.

Have the Soviets Offered Help? The role of the USSR in the present situation is obscure. Libyan Petroleum Minister Mabruuk paid a visit to Moscow in mid-March and announced on his return that the USSR had offered assistance to the Libyan oil industry. The trip was almost certainly an LARG ploy to put pressure on the companies and probably was

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recognized as such by the USSR, which apparently made no significant marketing offers at the time. During the last week of March, however, the Moscow press ran at least four articles on Arab oil, suggesting USSR approval of Arab nationalization of US oil interests and quoting an Egyptian article which discussed the possibility that, among themselves, France, other Arab states, and the USSR could find markets for any nationalized oil. Since mid-March the new Soviet Ambassador to Libya has apparently seen both Prime Minister Qadhaafi and Petroleum Minister Mabruuk. The Petroleum Undersecretary told the Embassy on March 30 that the USSR has offered to purchase unspecified amounts of crude oil and to help market the balance if required by developments, and that the LARG feels its hand strengthened as a result of this offer.

We doubt that the Soviets made any such offer although they probably have injected themselves into the negotiations in some way in the past two or three weeks. The USSR by itself probably could not absorb any significant proportion of Libya's 3.6 million barrels daily output of crude oil and assure a market for the balance or could not absorb any of Libya's liquified natural gas. More likely, the USSR, to ingratiate itself with the Libyan regime, may have offered to take essentially token shipments and to assist, to the extent possible, in marketing. The Libyan military leaders may have misinterpreted the significance of this offer.

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What Happens Next? If indeed the junta has misjudged and continues to misjudge Soviet capabilities and intentions to market Libyan oil and gas, and if the companies fail to make a satisfactory counter-offer, the LARG could take some precipitous action against the companies in the near future, with very serious consequences to our interests in Libya and to the world petroleum markets. The companies are keeping their cards close [redacted] B1

[redacted] If, however, they do not agree to a reasonably forthcoming counteroffer, a major crisis in Libya will probably ensue.

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